

CIA/OER/S-06630-74 WORLD OIL PRICES  
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21 November 1974

MEMORANDUM FOR THE RECORD

SUBJECT: World Oil Prices

The attached briefing was requested by the DCI's  
Briefing Staff. It was prepared by [REDACTED]  
[REDACTED] of this Branch and forwarded to the requestor  
on 20 November 1974.

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Attachment:  
As stated

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SUBJECT: World Oil Prices

Key Points

- Several Gulf Oil producers met on 9 November to discuss the Saudi proposal for a 40 cents per barrel cut in posted prices.
- Saudi Arabia, Abu Dhabi and Qatar agreed on a proposal which would result in an increase in 40-50 cents in the average price of Saudi Benchmark crude.
- Iraq, Iran, and Kuwait abstained, indicating that a price change required a decision at a full meeting of OPEC ministers.
- There have been no indications that any other major producers will follow the Saudi proposal.
- Oil prices now in effect undoubtedly will be changed after the next OPEC ministerial meeting on 12 December.
- OPEC undoubtedly will increase the price of oil from the level established in September -- the questions that remain are how much and in what manner.
- The average cost of the Benchmark Gulf crude has increased from \$9.34 in January to \$9.85 in October. The latest Saudi move has increased it to \$10.25-\$10.37.

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The Details

1. The Gulf Oil Conference held November 9-10 in Abu Dhabi to discuss the Saudi proposal for a cut of 40 cents per barrel in posted prices resulted in an increase of 40-50 cents in average prices for three of the participants. Saudi Arabia, the United Arab Emirates (UAE), and Qatar agreed to put the Saudi proposal into effect as of 1 November 1974. Iraq, Iran, and Kuwait abstained, indicating that a change in their prices required a decision at a full meeting of OPEC ministers. The next such meeting is to be held in Vienna on 12 December.

2. In an official statement issued after the meeting, Saudi Arabia, the UAE, and Qatar indicated that through 31 July 1975:

--posted prices would be reduced by 40 cents -- that is, from \$11.65 to \$11.25 per barrel for Saudi benchmark crude,

--the royalty rate would be raised from 16-2/3% to 20% of posted prices, and

--the tax rate would be raised from 65-3/4% to 85% of profits as calculated for tax purposes.

3. These changes increase the price of equity oil to the producing companies from \$8.36 to \$9.92 per barrel for benchmark crude. While the communique did not mention the cost of participation oil -- currently 60% of output in Saudi Arabia -- several sources indicate that the three countries will now charge the producing companies 94.8% of posted price, or \$10.67 for benchmark crude. These companies consequently will pay an average price of between \$9.92 and \$10.37 per barrel, depending on how much participation oil is purchased. Saudi Minister of Petroleum Yamani said at the Conference that his government was prepared to make direct sales to third parties at 93% of posted price, or \$10.46. As a result of the new moves, the average price of benchmark crude to all buyers will rise from \$9.84 to between \$10.25 and \$10.37, depending on the amount sold to third-party buyers.

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4. Although three of the participants did not join in the communique, there apparently was no serious dissension at the Gulf Conference. Kuwait agreed basically with the substance of the Saudi proposal but opposed the procedure. Iraq and Iran had no intention of joining in any action decided at this meeting. Indeed, their representative were not empowered to endorse any proposal. Iraq continued to oppose any cut in posted prices.

5. Tehran reacted to the meeting by accusing the Saudis of raising oil prices and again solicited support for the Shah's single-price proposal. The Shah is certain to cite the outcome of the Conference as evidence that Saudi Arabia, not Iran, is responsible for the continuing increase in world oil prices. He is not expected, however, to seriously oppose any agreement on a general price rise at the December meeting of OPEC.

6. There have been no indications that any other major producers will follow the Saudi proposal before the 12 December OPEC meeting. The Venezuelan Oil Minister Hernandez has attempted to squelch any speculation that his country would follow the Saudi lead by announcing that Venezuela had no plans to modify the tax reference prices for the final quarter of 1974.

7. The upcoming OPEC ministerial meeting on 12 December undoubtedly will make some adjustments to the prices adopted in Vienna for 1 October. Both the proposal of the Abu Dhabi meeting and the Iranian single-price system will be presented at the meeting. The OPEC ministers probably will recommend a compromise that contains elements of both proposals. In any event the price of oil undoubtedly will be higher than the level set at the September meeting.

8. Direct OPEC action along with individual actions by OPEC members has caused a steady increase in the average price of oil. The average cost of benchmark crude oil was \$9.34 in January; \$9.52 in July and \$9.85 in October. The Abu Dhabi conference proposal increases this price to \$10.25-\$10.37.

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